

## ADMINISTRATION AND FINANCE COMMITTEE

DATE: April 15, 2008

CALLED TO ORDER: 5:34 p.m.

ADJOURNED: 7:48 p.m.

### ATTENDANCE

#### Attending Members

Marilyn Pfisterer, Chair  
Paul Bateman  
Susie Day  
Barbara Malone  
Jackie Nytes  
Ryan Vaughn

#### Absent Members

Joanne Sanders

### AGENDA

PROPOSAL NO. 121, 2008 - authorizes the issuance and sale of notes for the purpose of making a loan to provide funds to reimburse the County for funds expended to acquire a voting system for Marion County and to pay the expenses in connection with the issuance of such notes  
"Do Pass as Amended" Vote 6-0

PROPOSAL NO. 162, 2008 - approves the Mayor's appointment of Darla Y. Williams as hearing officer to preside over the administrative adjudication of environmental violations on behalf of the City  
"Do Pass" Vote 6-0

PROPOSAL NO. 135, 2008 - approves the issuance of one or more series of City of Indianapolis, Indiana Waterworks District Net Revenue Refunding Bonds in an aggregate principal amount not to exceed \$110,000,000 and other actions in respect thereto  
"Do Pass" Vote 6-0

PROPOSAL NO. 163, 2008 - amends Sec. 202-203(a) of the Code to require disclosure of, accounting for and an annual report to the City-County Council respecting any non-governmental entity that receives funds by direct appropriation or from the sale, lease or other use of property belonging to the Consolidated City and County  
"Postponed" until May 20, 2008 Vote 6-0

PROPOSAL NO. 187, 2008 - proposes an ordinance of the Marion County Income Tax Council to impose a County Option Income Tax rate reduction of the tax rate imposed pursuant to IC 6-3.5-6-31, effective October 1, 2008, and to cast the vote of the City-County Council on said ordinance  
“Postponed” until May 20, 2008  
Vote 6-0

Financial Picture for the City – presented by David Reynolds, City Controller

## ADMINISTRATION AND FINANCE COMMITTEE

The Administration and Finance Committee of the City-County Council met on Tuesday, April 15, 2008. Chair Marilyn Pfisterer called the meeting to order at 5:34 p.m. with the following members present: Paul Bateman, Susie Day, Jackie Nytes, and Ryan Vaughn. Barbara Malone arrived shortly thereafter. Absent was Joanne Sanders. Councillors Vernon Brown, Dane Mahern, and Cherrish Pryor were also in attendance. Representing Council staff was James Steele, Council Chief Financial Officer (CFO), and Aaron Haith, Minority Counsel.

PROPOSAL NO. 121, 2008 - authorizes the issuance and sale of notes for the purpose of making a loan to provide funds to reimburse the County for funds expended to acquire a voting system for Marion County and to pay the expenses in connection with the issuance of such notes

Kevin Taylor, Executive Director, Indianapolis Local Public Improvement Bond Bank, said that they previously requested authorization for the Bond Bank Board to issue bonds to reimburse the County for its payment of a portion of the cost associated with acquiring election equipment.

Jason Dudich, Budget Deputy, Office of Finance and Management (OFM), said that the last discussion concerned payment of a \$5.7 million note that was due March 1, 2008, and paid out of the County General Fund. He said that the desire was to reimburse the County General Fund to make it whole again. He said that the Committee inquired as to how the funds would be paid relative to the note. Mr. Dudich said that the OFM is committed to paying the notes in future fiscal years; however, they will not be paid by increased revenues. He said that the notes will be paid with current revenues received through the County General Fund, but he is unsure as to the length of time the notes will be paid.

Councillor Nytes said that she understands that the notes had to be paid and that there is a need to reimburse the County General Fund. However, she expected to hear a more precise plan for repayment. She asked if the length of time of the bond is known. Mr. Dudich answered that both the Bond Bank and the OFM is comfortable with a bond not to exceed five years. He said that the precise time is not known and will not be known until the bonds are issued. Councillor Nytes asked if the Bond Bank has approved a specific time. Mr. Taylor answered that the Bond Bank has not yet approved any term. He said that he would recommend that the bonds not exceed three to five years. Councillor Nytes asked why there is not more certainty of the process. Mr. Dudich answered that the OFM is currently working on developing a budget, and with so many uncertainties of revenue, as well as projections for the next three fiscal years, the OFM cannot provide a solid plan indicating the exact payment and number of years. However, there is a commitment to pay the bonds over a three-to-five year period, and if additional revenue is available, the bonds can be paid earlier because there will be no early payment penalty. Councillor Nytes said that she is uncomfortable authorizing such an open-ended transaction.

Chair Pfisterer said that she understands Councillor Nytes' discomfort. She asked if, since 2009 is not an election year, if there is any kind of projection as to what kind of funds could be applied to the bonds. Mr. Dudich said that it is possible that since this is a non-election year, there will be opportunities to pay down a portion of the debt, if issued, but it is uncertain at this time. He added that there are a number of options that may be available to pay down the debt. Chair Pfisterer asked

if it can be assumed that \$3 million could be available to pay down the debt in 2009, because she understood that to be the suggested savings in a non-election year. Mr. Dudich answered that the amount of funds that the Marion County Clerk, the Election Board, or the Voter's Registration Board will need in 2009 is uncertain; therefore, he cannot commit to a specific amount that can be utilized to pay down the debt. He said that it is the goal of the OFM to pay off the debt as quickly as possible.

Councillor Nytes asked if the Bond Bank will give the loan to the County. Mr. Taylor answered in the affirmative. Councillor Nytes asked if the loan will be a General Obligation type of loan that will be backed by property taxes. Mr. Taylor answered that he believes that Mr. Dudich is stating that the loan will be a Limited Tax Obligation that will require no tax increase to make good on the payment of the loan. The loan will be paid within the existing tax structure, and the County will use its full faith in credit. Councillor Nytes asked if the amount is unknown because of the uncertainty of the amortization schedule. Mr. Taylor said that the terms of the Bond Bank's bond issuance would be contingent upon the negotiation with the note holder providing the most favorable terms over a three-to-five year term. Councillor Nytes asked if negotiations have not taken place because the County is waiting for approval from the Council to enter the negotiation process. Mr. Taylor answered in the affirmative, and stated that prospective note holders have shown interest. Chair Pfisterer asked if the prospective note holders are offering favorable rates. Mr. Taylor answered in the affirmative.

Mr. Steele commented that the city and the county's financial condition is uncertain due to the completion of reassessments. However, the numbers have not yet been certified by the Department of Local Government Finance (DLGF). In addition, the reconciliation bills from last year will not go out until June or July of this year, and the County has not yet received settlement for 2007. Mr. Steele added that the 2007/pay 2008 reassessment is not complete, but will possibly be done in a couple of months. However, it is not likely that the settlement for 2007/pay 2008 will occur this year. He said, additionally, it may not be certain as to whether the County collects 95% or 100% of property taxes, or how many appeals will occur. He said that he understands that 1) the Bond Bank is proposing to sell the note to a bank, and based upon the terms of that bank, the Bond Bank will look at the most favorable terms within a three-to-five year term, 2) an amortization schedule will then be set according to the terms of the loan, 3) the amount for debt service payments will be included in the 2009 budget using either existing fund balance or current revenues, and 4) the OFM does not anticipate issuing debt that would require a property tax increase. He asked Mr. Dudich if his understanding is correct. Mr. Dudich answered in the affirmative. Mr. Steele said that this is a tough situation based upon unknown financial facts, but the County does need to be reimbursed for the \$5.7 million.

Councillor Malone asked, with respect to the seventh "whereas" of the ordinance, if the Council could receive additional information or further authorize the ordinance dependant upon the terms that are gathered. Mr. Steele asked if Councillor Malone is proposing that the Committee approve the proposal subject to a review by the Committee once the terms and conditions are set and a more concise plan for repayment is known. Councillor Malone answered in the affirmative, and stated that she understands the resistance that Councillor Nytes expressed, especially if the Council absolved of their authority or any possible review of the conditions. She said that she is not comfortable passing the resolution on without the Committee's ability to review the information

after the terms are gathered. Chair Pfisterer asked if there would be any unintended consequences or difficulty obtaining favorable rates if an amendment such as this is made to the ordinance. Mr. Taylor answered in the negative.

Councillor Malone moved, seconded by Councillor Vaughn, to “Amend” Proposal No. 121, 2008 to strike the words “without further authority and action beyond this Ordinance” in the seventh whereas of the ordinance.

Councillor Nytes asked if the amendment would require a report to be given. She said that the Council typically works with the Bond Bank and trusts them to carry out this type of responsibility, but because of the unusual circumstances this year, a report should be required. She said that she believes that this year is the most unusual with respect to the financial condition. Councillor Nytes said that she understands why precise information cannot be given, but she is surprised by the pledge to make the payments out of existing budgets without adding debt service. She said that she simply wants to ensure that there will be no unintended consequences that would require cutting agencies, and she is not sure if the proposed amendment requires follow-up activity to the Council. Councillor Vaughn asked if it would suffice to change the amendment to striking the suggested words and substituting them with the words “, subject to further review of the City-County Council on the repayment plan.” He said that this would preliminarily give the OFM and the Bond Bank the authority to carry out the ordinance and pursue negotiations. Mr. Taylor clarified that the ordinance does not approve any action on the part of the Bond Bank, but the Council would approve the County issuance of the notes. Chair Pfisterer asked if there are any foreseeable problems with proceeding with the suggested amendment to the amendment. Mr. Dudich said that he believes that there is confusion between the terms of the debt issuance, which includes the rate, the term, and the amortization, and the details of how the debt will be paid. He said that he believes that once the deal is done, the Bond Bank will be able to come before the Committee with the details of the terms. On the other hand, he is unsure if the OFM will have a better perspective of how the debt will be paid once the bond is issued. Councillor Nytes said that it is useful to have all of the information before the Committee votes on it. For example, if the negotiated terms included a balloon payment at the end of five years, and there were all new Councillors, the problem would unfairly fall into the hands of others. She said that would also be unfair to the taxpayers. Mr. Taylor said that this particular case is similar to the rolling over of the notes that the County is currently dealing with. Chair Pfisterer added that, since there has been a pledge not to increase taxes, it would not have an impact on taxpayers.

Mr. Steele asked if the Bond Bank would use this resolution as authorization that the County may borrow the money from the Bond Bank. Mr. Taylor answered in the affirmative. Mr. Steele asked if the Bond Bank would also need a resolution for the County to authorize the Bond Bank to sell the note. Mr. Taylor answered in the affirmative. Mr. Steele asked if the amendment would allow the Bond Bank to negotiate the sale, but require them to return to the Committee in order to finalize the sale. Mr. Taylor answered in the affirmative. Mr. Steele asked if there would be a problem with proceeding according to the suggested amendment to the resolution. Mr. Taylor answered in the negative, and stated that he believes that Marion County’s credit is strong enough that prospective investors would be willing to act on the assumption that the Council would approve the County’s repayment of the notes. Mr. Steele said that the amendment will permit negotiations to occur, but asked if the Council will require more specific information as to the payment stream and if the OFM

will be able to provide that information. He said if the OFM does not have the desired information, the Committee still may not be able to move forward. Mr. Steele added that time will solve the problem; however, that time may not have expired by the time the terms are negotiated.

Councillor Vaughn moved, seconded by Councillor Malone, to “Amend” the amendment to Proposal No. 121, 2008, by adding a comma after “(the “Bond Bank”)” and adding the words, “subject to further review by the City-County Council on the final terms of the repayment plan.” The motion carried by a vote of 6-0.

Councillor Vaughn moved, seconded by Councillor Malone, to forward Proposal No. 121, 2008 to the full Council with a “Do Pass as Amended” recommendation. The motion carried by a vote of 6-0.

Councillor Nytes said that she appreciates the dilemma in which the city and county are currently working, and her questions are not personally directed toward anyone. Mr. Taylor said that this is a matter that has evolved over the past five years, and all questions are welcome.

PROPOSAL NO. 162, 2008 - approves the Mayor's appointment of Darla Y. Williams as hearing officer to preside over the administrative adjudication of environmental violations on behalf of the City

Ms. Williams said that she is an attorney, and has been in practice for eight years. She is an Indianapolis native, attended Indianapolis Public Schools, and grew up on the east side of town. She added that she is a nature lover and life-long jogger, which puts her in the neighborhoods and occasionally on the Monon Trail. She said that she attended the School of Engineering and Technology at Purdue University, and therefore, has some knowledge of scientific and engineering topics. Ms. Williams said that she is excited about this position, as she served as the Hearing Officer from July of 2004 to January of 2007, and she enjoyed the service.

Councillor Malone asked if Ms. Williams was previously appointed by the prior Administration. Ms. Williams answered in the affirmative. Councillor Malone asked if Ms. Williams' previous service was in the same position. Ms. Williams answered in the affirmative.

Ernie Scherer, citizen, spoke in support of Ms. Williams, as he has some experience working with her in the past.

Councillor Malone moved, seconded by Councillor Vaughn, to forward Proposal No. 162, 2008 to the full Council with a “Do Pass” recommendation. The motion carried by a vote of 6-0.

PROPOSAL NO. 135, 2008 - approves the issuance of one or more series of City of Indianapolis, Indiana Waterworks District Net Revenue Refunding Bonds in an aggregate principal amount not to exceed \$110,000,000 and other actions in respect thereto

Ryan Pastorius, Chief Financial Officer (CFO), Department of Waterworks, said that he is before the Committee to discuss a bond issuance for the refunding of two of the Department's outstanding

variable rate debts. He distributed a handout (attached as Exhibit A), and discussed the following key points:

- Department of Waterworks Background
  - The Waterworks acquisition price was \$580 million, all of which is still outstanding debt.
  - The department has a lot of inground pipes and treatment facilities, which require a number of resources to maintain and provide excellent water quality.
- Purpose for the Ordinance
  - In the last couple of months, the variable rate debt market has had some serious difficulties.
    - One of the Waterworks' pieces of debt needs to be refunded due to interest rate increases over the last couple of months.
      - With the subprime mortgage crisis, a lot of bond insurers have experienced issues with liquidity, which has caused many credit agencies to put some of the insurers on credit watch and has downgraded others.
        - This has caused uncertainty in the variable rate market in the eyes of the investor, causing rates to increase.
    - Without refunding or conversion, the Waterworks will not make any profit.
      - All profit is put toward capital improvements for the system.
    - Rates have increased from 3.25% up to almost 6%, and some others have gone up to 20%.
      - Many other cities and government entities across the country are dealing with this crisis.
- Issue Details – 2005H Bonds (one of the debts included in the ordinance)
  - These bonds have a little more liquidity and security, because a bank would take possession of the bonds if they were to fail at auction.
  - Rates still increase due to the low demand for variable rate debt, but the increase is not very drastic.
- Issue Details – 2004A Bonds (other debt included in the ordinance)
  - There were 44 failures to sell Auction Rate Security (ARS) bonds from 1984 to 2007.
  - In one day, February 20, 2008, there were 395 failures to sell, for a rate of 60% of all sales.
    - Another day in February had an 80% failure rate.
  - In March, 2008, the current rate was approximately 6% with an increase of about 75% over the Waterworks' budgeted amount.
  - Failures to sell have no bearing on the City's or the Board of Waterworks' credit rating. The issue concerns the bond insurers.
- Alternatives to the 2004A Bonds
  - First two are similar in structure to what the Waterworks currently has in the 2005H.
  - Uninsured Put Bond Refunding
    - Short-term, fixed rate bond allowing a rate to be locked in for two to five years and then decide how to handle the bonds from that point.
  - Synthetic Fixed Rate Refunding Bond

- Swap agreements – Waterworks will likely not choose this option.
- Alternatives for the 2005H bonds will be similar to those for the 2004A bonds, but slightly different due to different principles involved with the debt.
- Next Steps
  - If resolution is approved by the Council, the bonds would possibly be able to go to market as quickly as late May.
- Additionally
  - Waterworks is not property tax related. The only time the City's finances interact with the Waterworks' finances is with payments in lieu of taxes (PILOTs).
  - The issue with the bonds is simply a market issue.
  - The interest rate for the past four years averaged about 4%, and a fixed rate is currently about 5.5%, resulting in a savings of approximately 1.5% in terms of interest.

Councillor Nytes asked if the impact of the changes in the market will be reflected in the rates of the customers. Mr. Pastorius answered that Waterworks is not anticipating that it will have a significant effect on rates, as they have a lot of debt outstanding. He said that their debt service payments are approximately \$43 million for this year, and this transaction may increase their payments by about \$500,000. However, they expect to receive approximately \$130 million in fees. Councillor Nytes asked if Waterworks will need to return to the Committee with proposals to refund other bonds that were issued. Mr. Pastorius answered in the negative, and stated that the others are fixed rate bonds, except for one other bond; but its condition is not suitable for refunding.

Chair Pfisterer asked if Waterworks is basically looking to “refinance” the bond to hopefully generate savings. Mr. Pastorius answered in the affirmative, and stated that the savings, however, would be dependent on the future market conditions. All indications are that relief will be realized in the long run, regardless of the option chosen. He said that the maximum rate that the 2004A bonds can ever achieve is 12%, but that is fairly high, and Waterworks does not want to get to that point.

Councillor Pfisterer asked if Waterworks is still anticipating long-term savings, even though some of the options were higher than the budgeted amount. Mr. Pastorius answered in the affirmative.

Councillor Vaughn moved, seconded by Councillor Nytes, to forward Proposal No. 135, 2008 to the full Council with a “Do Pass” recommendation. The motion carried by a vote of 6-0.

PROPOSAL NO. 163, 2008 - amends Sec. 202-203(a) of the Code to require disclosure of, accounting for and an annual report to the City-County Council respecting any non-governmental entity that receives funds by direct appropriation or from the sale, lease or other use of property belonging to the Consolidated City and County

Councillor Pryor said that this proposal will help the Council to be better stewards for the taxpayers. It will require any entity that receives money from the city or county for managed government property to provide fiscal information to the OFM, which would then be presented to the City-County Council. The proposal would offer the opportunity for the Council to identify some duplicate services, if applicable. It would only require that the Council receive information to

provide a true understanding and knowledge of the city's financial status. She said, as the fiscal body of the city and county, she feels that the Council should have an understanding of the city's assets, where the money is, what the money is going toward and who is spending the money. Councillor Pryor said that the proposal adds a ninth sub-section under Section 202-203 of the Code. She read the words that were inserted, and stated that she believes that the city owns a number of assets of which the Council, as a body, is not aware.

Councillor Vaughn commended Councillor Pryor on working to increase the Council's awareness.

Councillor Nytes asked which entities will be required to make the requested reports. For example, will entities that receive grants from the Department of Metropolitan Development (DMD), such as Community Development Block Grants (CDBGs), be required to report. Mr. Haith answered that those types of entities, including Municipal Corporations, already prepare disclosures regarding income that have to be reported. He said that Councillor Pryor is seeking to receive this information from entities that are not formal agencies or formal grant recipients. However, there are some agencies that make use of city funds that do not report to the city, and there is no way to know if those agencies provide duplicate services with those funds. Councillor Nytes asked which agency would be required to report that does not currently report. Councillor Pryor answered that she is aware of two: Indianapolis Downtown, Inc. (IDI) and Indy Partnership. However, there are possibly other organizations that the Council is not aware of. Councillor Nytes said that there may be organizations who may be wondering if they are covered or not covered by the proposal. She said, for example, this proposal might affect the Indiana Repertory Theatre (IRT), which is housed in a building that is the property of a development corporation, of which the city is the primary partner. She asked if the IRT would be required to submit their budget to the Council. Councillor Pryor answered that they would submit their budget as it relates to the revenue that they receive on behalf of the Council. She said that IDI and Indy Partnership receive money out of the city's budget, but she is unaware of where the money comes from. She said that she feels that it is important that the Council and the taxpayers are aware of where the money is being spent. Councillor Nytes said that she is not sure if this is the suitable approach in determining the city's assets, and she is unsure which entities this affects.

Councillor Malone said that the information may not be readily available, but she is not confident that it is not already being reported to the Council. She said that she is also not sure which entities are being impacted. Councillor Pryor said that she is concerned that the Council is not aware of who they are impacted by. She said that if the city has assets that they are unaware of, and entities are receiving revenues from those assets but no reports are given, then the city is in an unfair position.

Councillor Bateman asked if Councillor Pryor is requesting an audit on the fiscal assets that the city currently has. Mr. Haith answered that he believes that Councillor Pryor is trying to list the assets, find out what their source of funds is, what the uses of the funds are, and ensure that a comparison can be done to decide if it is the best use of that particular portion of taxpayer's money. He said for example, if IDI is included in the budget, then uncovering the information and making their source of income from the city, their purpose for the city, and their staff information clear, may also uncover if they are duplicating a service from another agency that the city or county is already funding. If that information is available, it is simply a part of the report that the Mayor would give

as to the assets. Councillor Nytes asked if this would request a different annual financial report than what is done in the Comprehensive Annual Financial Report (CAFR) or the budget. Mr. Haith answered that it may require some extraction from the larger budget, if the agencies and assets are included in the budget. The report would make the entities known, reveal the sources of their funds, and uncover the purposes for their funding and expenditures. Councillor Nytes said that she believes that both IDI and Indy Partnership are included in the DMD budget, as well as appropriations that the Council voted on within the last year related to entities such as the Indiana Theatre or the Arts Council. Therefore, she is unsure if there are any entities that do not already report to the Council.

Councillor Vaughn said that he feels that the proposal appears to require a greater level of detail from some of those agencies. While going through the budget process last year, he felt that an added level of detail from some of the agencies may have helped him to better evaluate whether he felt the expenditure was justified. He asked if that is the intent of this proposal. Councillor Pryor answered in the affirmative.

Chair Pfisterer said that she is unclear as to whether the intent is to examine only physical assets or simply a report of the financial expenditures, because both have been mentioned. Councillor Pryor said that the intent of the proposal is to examine both.

Councillor Malone asked if the proposal is also indicating that entities are to report the benefit that is derived from the lease, use, or management of properties belonging to the city. Councillor Pryor answered in the affirmative. Chair Pfisterer asked if the reporting is in terms of nebulous or fiscal benefit. Councillor Pryor answered that it is for fiscal benefit. Councillor Malone asked if its intent is to determine how much the city is supporting the agency's budget. Councillor Pryor answered that it is basically to determine the benefit or profit that the agency is receiving from the city's property.

Mr. Steele said that the impact of the proposal appears to be an issue that the Councillors are not grasping. He said that he is not sure if the Administration has had a chance to analyze the proposal to determine the impact, and perhaps they should review the proposal to determine their role in the process and what additional information will need to be reported. David Reynolds, City Controller, said that he also thanks Councillor Pryor for her efforts with the proposal. He said that he believes that it is an opportunity to continue to shed light in the budget process and a good step toward determining how taxpayer dollars are being spent. He said, unfortunately, he did not see the proposal prior to the meeting and he would like the opportunity to work with Councillor Pryor to ensure that her concerns are addressed. Mr. Reynolds said that he is unsure as to how he will be able to extract the requested information, but he is supportive of the plan. Councillor Pryor clarified that the desired report would not be part of the regular budget process. Chair Pfisterer asked if the Controller would be responsible for obtaining the information for the report. Councillor Pryor answered in the affirmative, and stated that she would be very willing to work with the Controller, as she believes that the issue is important to the Council and to the taxpayers.

Councillor Vaughn moved, seconded by Councillor Malone, to "Postpone" Proposal No. 163, 2008 until May 20, 2008, to allow Councillor Pryor and the Controller to work together to finalize the details of the ordinance. The motion carried by a vote of 6-0.

PROPOSAL NO. 187, 2008 - proposes an ordinance of the Marion County Income Tax Council to impose a County Option Income Tax rate reduction of the tax rate imposed pursuant to IC 6-3.5-6-31, effective October 1, 2008, and to cast the vote of the City-County Council on said ordinance

Councillor Brown said that the Council has the opportunity to exhibit some ethical behavior and give money back to the taxpayers. He said that in July, 2007, there was a controversial Council Proposal No. 264, 2007, in which the County Option Income Tax (COIT) was raised .65 of one percent in the interest of public safety. There was a lot of discussion and public input about this particular proposal. The proposal passed, and much needed funds were raised to increase the staff in the police department, initiate some new court systems, give prosecutors and public defenders a raise, have more money for jail beds, and finally settle the pension liability for the pre-1977 pension for the police and fire departments. Councillor Brown said at the end of last year, as the Administration was changing, there were discussions of rescinding the proposal and the increase. At the time, he was not in favor of that because of the issues that the proposal was to solve. However, this year, the Legislature passed House Bill (HB) 1001, which removes the pension liability for the city. Therefore, he feels that giving the money back to the taxpayers is appropriate. Councillor Brown said that Proposal No. 187, 2008 gives the Council a chance to give back to renters and low income persons. He said that he had the opportunity last year to discuss why the COIT was being raised with his constituents, and they were in favor of improving public safety. However, due to legislation, the total increase is not needed.

Councillor Vaughn thanked Councillor Brown for the opportunity to have an open discussion about the issue, as it created a great deal of discussion last year. He asked if Councillor Brown is seeking to reduce the .65 increase to .45. Councillor Brown answered in the affirmative, and stated that this amount is correspondent to the pension relief.

Councillor Nytes said that she likes the idea and would be in favor of moving forward with the proposal. However, she is concerned that the state has also taken away some of the county's resources. She said that Councillor Brown is attempting to take the direction that seems fair, as the Council raised the tax for something that is no longer needed and, therefore, should be able to reduce the tax. She said that unfortunately, doing the right thing in this case has unintended consequences, due to the stipulation that the state has put on the county. Chair Pfisterer asked for an explanation of the State's stipulation. Mr. Steele answered that HB 1001 provided that the State of Indiana would pick up the shortfall in the old pension plan. For example, if the costs for police and fire pensions this year were \$50 million, the State would provide \$27 million of relief this year, and the city would pay \$23 million. Next year, the State would pick up the city's funding level of \$23 million; however, the city must then reduce the property tax levy by \$23 million. Mr. Reynolds concurred with Mr. Steele's explanation of HB 1001. Therefore, the taxpayers in Marion County are benefiting by the State picking up the police and fire pension but also by the city's requirement to reduce the property tax levy.

Councillor Nytes stated if Proposal No. 187, 2008 is pursued, and the county reduces the property tax levy as required, it would eliminate two sources of income. She asked if that will cause a problem with covering the reduction of the property tax levy. Mr. Reynolds answered in the affirmative, and stated that, currently, the COIT money that was funding the pre-1977 pension liability will have to be shifted to wherever the levy will be reduced. If that amount is given back to the taxpayers, there will

be no dollars to shift over to cover the levy. Councillor Nytes asked if the state's requirement causes a wash if this particular proposal is not acted upon. Mr. Reynolds answered that it is a wash to the City-County budget. However, the Marion County taxpayers will be the winners because they receive the benefit of House Enrolled Act (HEA) 1001. Councillor Vaughn added that it appears to be a wash in a fiscal budget when examining one year, but he recalls that the city was going to take \$35 million of income tax to purchase a 40-year bond, which would have accumulated interest payments. Therefore, having the state pick up that obligation, the city also avoids having to pay all the interest. Mr. Reynolds agreed, and said that the plan that was in the original 2008 budget was for the sale of \$450 million of pension bonds that would accumulate over a 30-year period with a liability over \$1 billion. Councillor Vaughn said that though it may be a wash in a given fiscal year, the city will save \$400 to \$500 million in interest payments over 40 years.

Councillor Brown said that though taxpayers will benefit from some reduction in property tax, those paying the COIT will not receive any relief if they are not homeowners. He said that he has 20 apartment complexes in a four-square-mile district. Mr. Steele said that those taxpayers will receive some relief in whichever area the levy is reduced, which includes commercial and real property. Councillor Brown said that everyone is paying into COIT, but those who are not homeowners do not get anything back. Mr. Steele agreed, as it is very unlikely that landlords will reduce the rent due to the relief of property taxes. Chair Pfisterer added that, adversely, landlords will not have reason to increase the rent. Councillor Brown said that if the money is going to be used for something else and not given back to the taxpayers, then it should be communicated with the taxpayers.

Councillor Vaughn said that HEA 1001 indicates two dates to act on the legislation, and there is still some uncertainty about exactly what property tax revenues will be lost. He said that the Mayor's Office and Administration wants to work to determine the options to reduce the tax burden, whether it involves government consolidation efforts or functional consolidation efforts. He said that issues also exist between assessment offices in conflict over what assessments are, what type of appeals the city will face, and how it will affect the city's revenue. Councillor Vaughn said that he suggests that further discussions with Councillor Brown, the Administration, the OFM, and Mr. Steele take place. He supports postponing the proposal until closer to the budget process, so that a more concise picture of the city's financial standing is available.

Councillor Bateman said that he hesitantly voted for the COIT increase last year because he knew it affected the people who could least afford it, but he is excited about the opportunity to repeal that action. He said that he supports postponement of the proposal until more information on its long-term effect is available.

Mr. Haith said that the proposal needs a technical amendment. Section 1 on page 4 of the proposal should be changed to reflect numerical changes as indicated on Exhibit B.

Councillor Brown said that he believes that the money should be given back to the taxpayers to help relieve the effects of rising gas prices and the increase in the state sales tax.

Councillor Mahern said that he is in support of the proposal because he has a very hard-working class district consisting of a lot of renters. He said that people had the least problem paying for pensions

with the COIT increase, and the Council really needs to look at giving that back to the taxpayers since the State is covering the pension.

Bart Brown, taxpayer, said that he agrees that the COIT needs to be reduced, as the caps on property tax eliminates the need for local homestead credit. He said that if his income taxes and his homestead credit are reduced, he will gain, and so will many others. Mr. Brown said that the bond pension payments were taken out of the budget last year. He added that the pension liability elimination will actually create a negative to the budget, because a property tax decrease will also decrease auto excise and other taxes. Mr. Reynolds commented that the budget that was passed does include debt service of \$30 million for a \$450 million bond.

Councillor Vaughn moved, seconded by Councillor Nytes, to “Amend” Proposal No. 187, 2008 as illustrated in Exhibit B. The motion carried by a vote of 6-0.

Councillor Vaughn moved, seconded by Councillor Bateman, to “Postpone” Proposal No. 187, 2008 until May 20, 2008. The motion carried by a vote of 6-0.

[Councillor Vaughn left at 7:30 p.m.]

Financial Picture for the City – presented by David Reynolds, City Controller

Mr. Reynolds distributed a handout of his presentation (attached as Exhibit C) and discussed the following key points:

- 2008 Adopted Budget
  - The first column illustrates the 2008 adopted budget condensed to sources and uses.
  - The revenue supporting the budget is \$1.199 billion.
  - The uses total \$1.195 billion.
  - It appears that revenue exceeds the expenditures by \$3.8 million.
  - There are two fairly large funds, the Sanitation Service District Fund and the Stormwater Management Fund, where revenues are generating in excess of the expenditures due to the consent decree.
    - To complete the analysis, Mr. Reynolds is pulling the additional revenue that is being generated in the fund balances and labeling it as revenue that is being set aside for future expenses.
    - This would cause the revenue to total \$14.4 million less than the expenditures that were adopted in the budget.
- Adjustments to the 2008 Adopted Budget
  - There are a few revenues that will not receive the amount that was contemplated when the budget was passed.
    - It was assumed that the COIT would generate \$258.7 million, but the city will be \$2.4 million short, based on the state’s current distribution.
    - The Other category of revenue includes the Information Services Agency (ISA). It was stated that there was a late adjustment to the individual agency chargebacks that are a part of the agency budgets that go back to ISA. The

- chargebacks were reduced by \$3.4 million, but the revenues for ISA were not reduced because of the late timing.
- The city is behind in the pay 2007 and pay 2008 bills, which is causing the city to borrow dollars for cash flow, and the interest from the borrowed dollars was not part of the original budget; therefore, \$3.4 million of interest charges have been added to the budget.
- Additional expenditures of \$2.5 million are also included in Executive, Legislative, and Administration, which includes:
  - A \$1.8 million appropriation approved by the Council for Manatron, Inc. to perform the reassessments ordered by the DLGF.
  - An estimated \$650,000 for the special election in March for the open Congressional seat.
    - In working with the County Clerk, it appears that the expense for the special election will be closer to \$1 million.
- The net effect of the adjustments total \$11.7 million of impact to the fund balances.
- The adopted budget deficit and the adjustments total a deficit of \$26 million, and the revenues that are being generated to support the budget are not sufficient to support the appropriations that are being given. Therefore, fund balance has to be used to support those operations.
- 2008 Adjusted Baseline Budget
- 2008 Spending Plans
  - Fund Balances supporting the deficit
- 2009 Budget Development
  - The OFM hopes to soon release the budget instructions to all agency CFOs across the city and county.
  - Though only the 2009 budget will be presented to the Council, the OFM will look at the budget over the next three years.
  - Begin with 2008 Spending Plan (95%)
    - Due to the \$26 million deficit, all agencies were asked to look at their current spending and try to operate at 95% of their budgets.
      - Many agencies were able to comply, and the city has identified \$9 million of spending that will not occur, leaving the deficit at \$17 million.
      - The 2009 budget will operate at the 2008 spending level.
      - The OFM will continue to work with agencies that were not able to decrease spending to 95%.
  - Include Grant Appropriations
    - The OFM is also speaking with agencies about including grant appropriations in the budget, which would eliminate the practice of fiscal ordinances returning to the Council.
      - This may also help support Councillor Pryor's point of ensuring that all pertinent information is available, because an accurate account cannot be given if all the grant appropriations and spending that is being contemplated are not included when the budget is presented.
  - Unknown Assessed Values

- The assessed values will not be known as the 2009 budget is being put together.
- Circuit Breaker Impacts
  - Effects of HEA 1001 impacts the 2009 budget, due to the decrease in tax rates over the next two years.
    - The residential tax rate goes to 1.5%, apartments go to 2.5%, and commercial goes to 3.5% in 2009.
    - In 2010, the residential goes to 1%, apartments to 2%, and commercial to 3%.
- Five-year Financial Outlook
  - Bob Clifford, former City Controller, had commissioned a study looking at all of the property tax supported funds for the city and county.
    - The study was forecasted out of five years.
    - Mr. Reynolds was able to apply the impacts of HEA 1001 to the forecast, based on the Legislative Services Agency's estimate on the impacts to property tax supported funds.
    - The first graph shows the impacts on property tax supported funds in terms of revenues and expenditures:
      - The top line indicates expenditures and the bottom line indicates revenues.
        - The figures show that there was a slight deficit in 2008.
        - Both numbers drop considerably in 2009 due to the state picking up the Family and Children Fund, including expenses and revenue.
        - Based on historic spending levels, expenses pick up again in 2010, but revenues slightly drop due to the Circuit Breaker.
        - In 2011 and 2012, revenues and expenditures return to historic growth.
        - The gap between revenues and expenditures will continue to grow if actions are not taken.
    - The second graph shows the impact on property tax supported funds in terms of fund balance:
      - The top line represents the recommended minimum fund balance, and the bottom line represents the fund balance that is projected.
        - In 2008, the fund balance is projected at something less than \$100 million, drops a little in 2009, and becomes negative in 2010.
        - If actions are not taken within two years, the city will be out of funds.

Councillor Nytes asked if the pension bonds were obtained. Mr. Reynolds answered in the negative. Councillor Nytes asked if the revenue that has been collected for the pension obligation portion of the COIT increase is included in the projections. Mr. Reynolds answered in the affirmative. Councillor Nytes asked what this money is going toward, since it is no longer needed for debt service on bonds. Mr. Reynolds said that the 2008 budget contemplated debt service, and the proceeds of selling those bonds would be transferred to the Public Employee Retirement Fund

(PERF) under that plan. A portion of the money would be transferred back to make the payout for the current year. He said that there is no revenue coming into the pre-1977 fund to make payments to the current retirees in 2008. He will need to move the money that was budgeted in the Debt Service Fund and to the Fire Pension Fund in order to make current payouts for the pre-1977 retirees this year. Chair Pfisterer asked if the money in the Debt Service Fund will completely cover the payments. Mr. Reynolds answered in the affirmative.

Councillor Nytes asked if a great deal of public safety-related spending was moved to income tax supported funds. Mr. Reynolds answered in the affirmative. Councillor Nytes asked if Mr. Reynolds has had the opportunity to do a chart similar to the one in his presentation to see what has happened with income tax projections over time. She said that she is concerned that non-public safety activities may be put into unfair situations due to the city's attempt to reduce its reliance on property taxes. So many different measures have been put in place to reduce property tax spending, but the growth is in income tax. Mr. Reynolds said that those projections will be included in the three-year outlook. He said that each department will be asked to focus on their individual departmental revenues, but the OFM will focus on property taxes and income taxes. Councillor Nytes asked if the OFM will look at the situation holistically without assuming that all growth in income taxes automatically goes toward Public Safety and all current property tax supported activities must remain as such. Mr. Reynolds answered that the priorities will be set by the Mayor and the Council on how the revenue should be appropriated.

#### Conclusion

With no further business pending, and upon motion duly made, the Administration and Finance Committee of the City-County Council was adjourned at 7:48 p.m.

Respectfully submitted,

Marilyn Pfisterer, Chair  
Administration and Finance Committee

MP/nsm

# Department of Waterworks Bond Refunding

An Analysis of the Options for Refunding  
Variable Rate Waterworks Bonds

# Department of Waterworks

## Background

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- In 2002, the City acquired the assets of the Indianapolis Water Company and created the Department of Waterworks.
- The Department of Waterworks is a City agency, but receives no property tax support.
  - All financial resources for the Department come from the rates and charges paid by the customers of the Waterworks.
- The Waterworks has issued bonds for the acquisition of the system and for capital improvements.
  - All Waterworks bonds are solely based on the revenue received from the customers of the Waterworks
  - No City financial involvement whatsoever.

# Purpose for the Ordinance

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- The Department of Waterworks, in consultation with the Bond Bank, has determined that a refunding or conversion of some variable rate debt is necessary.
  - The refunding or conversion of debt will not materially increase the total amount of debt of the Waterworks.
- The refunding or conversion of debt is being done because of recent changes in market conditions that have drastically increased the interest cost of variable rate Waterworks bonds.
- Without refunding or conversion, the Waterworks will continue to see increases – and uncertainty – in future interest costs, which will reduce the available funds for improvements to the water system.

# Issue Details – 2005H Bonds

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- Waterworks Series 2005H Bonds are variable rate bonds known as Variable Rate Debt Obligations.
- These bonds have sold in the bond marketplace, but at interest rates greater than the projected rates.
  - Budgeted interest rate was 3.527% (\$1,686,259 annual interest cost)
  - Current rate is 4.500% (\$2,151,450 annual interest cost)
    - Increase of \$465,191 in annual interest cost or nearly 28%.
- These bonds may or may not be refunded/converted depending on market conditions.
  - The second type of bond – Waterworks Bonds Series 2004A will need to be refunded/converted because of their failure to sell at market.

# Issue Details – 2004A Bonds

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- Waterworks bond series 2004A is a variable rate bond known as an Auction Rate Security.
- Recently the security has failed to sell in the bond marketplace, resulting in higher than anticipated interest rates.
  - Current rate is 5.03% and the budgeted rate was 3.25%.
  - This is an increase of nearly 55% or \$890,000 in annual interest payments.
    - Budgeted annual payment is \$1,625,000
- Failure to sell is primarily due to credit concerns with Bond Insurers, and is no reflection on the financial position of the City or the Department.

# Alternatives to the 2004A Bonds

Current Interest Rate – 5.03% (\$2,515,000)

- The following items are the alternatives being considered for the refunding/conversion of the 2004A bonds and their costs.
- Letter of Credit backed Variable Rate Debt Bond
  - 2.51% current rate (\$1,255,000 annual interest cost)
- Liquidity Facility backed Variable Rate Debt Bond
  - 2.34% current rate (\$1,170,000 annual interest cost)
- Uninsured Put Bond Refunding
  - 2 Year Fixed Rate
    - 4.27% current rate (\$2,135,000 annual interest cost)
  - 3 Year Fixed Rate
    - 4.46% current rate (\$2,230,000 annual interest cost)
  - 5 Year Fixed Rate
    - 4.69% current rate (\$2,345,000 annual interest cost)

# Alternatives to the 2004A Bonds

Current Interest Rate – 5.03% (\$2,515,000)

- Synthetic Fixed Rate Refunding Bond
  - Letter of Credit backed Variable Rate Debt Bond
    - 4.44% current rate (\$2,220,000 annual interest cost)
  - Liquidity Facility backed Variable Rate Debt Bond
    - 4.14% current rate (\$2,070,000 annual interest cost)
- Fixed Rate Refunding Bond
  - 5.58% current rate (\$2,790,000 annual interest cost)
- Alternatives for the 2005H bonds will be similar to those for the 2004A bonds.
  - Only differences will be minor rate changes.

# Next Steps

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- City/County Council will act on ordinance.
- If the ordinance is approved, the Department, in consultation with the Bond Bank, will choose the best option.
- The Department and Bond Bank will work together to determine the best option for the customers.
  - Business decision will be based on balancing projected interest costs and interest rate risks.
  - Long and short term market assessments are key to the decision.
  - Making the final choice as late as possible gives the parties the best chance of understanding the market conditions at the time of sale and getting the best deal for the customers.

# Next Steps

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- The Board of Waterworks authorizes the final resolution that includes the agreed upon bond strategy developed by the Bond Bank and the Department.
- The Bond Bank Board will authorize the final sale of the Waterworks bonds based on the final resolution enacted by the Board of Waterworks.
- Bond work is finalized and bonds go to market as soon as possible to minimize changes in market conditions between the selection of a strategy and the execution of agreements.

# Questions

## Exhibit B

SECTION 1. Pursuant to I.C. 6-3.5-6-31(1), the Marion County Income Tax Council hereby reduces the income tax rate of forty-five one hundredths of one percent (.45%) heretofore imposed pursuant to I.C. 6-3-6-31 to the rate of twenty-five one hundredths of one percent (.25%) from October 1, 2008 through September 30, 2009, and two tenths of one percent (.20%) from October 1, 2009 through September 30, 2010, pursuant to I.C. 6-3.5-6-31 to provide funding for public safety, as defined in I.C. 6-3.5-6-31(a).

# Presentation to Administration and Finance Committee

April 15, 2008

David Reynolds, Controller

# Agenda

- 2008 Adopted Budget
- Adjustments to the 2008 Adopted Budget
- 2008 Adjusted Baseline Budget
- 2008 Spending Plans
- 2009 Budget Development
- 5 Year Financial Outlook

Consolidated City of Indianapolis and Marion County  
Revenues and Expenses by Function of Government

	Adopted 2008	2008 Adjust	2008 Baseline Budget
<b>Revenues</b>			
<i>City/County Revenues</i>			
Property Tax	402,152,214	0	402,152,214
Tax Increment Financing	47,796,116	0	47,796,116
County Option Income Tax	258,762,046	(2,400,000)	256,362,046
Storm Water Management	18,000,000	0	18,000,000
Pension Relief	31,617,000	0	31,617,000
Motor Vehicle Highway Taxes	35,392,328	0	35,392,328
State Collected Distribution	38,343,309	0	38,343,309
State and Federal Grants	41,226,194	0	41,226,194
Sewer Fees	110,821,006	0	110,821,006
Local Fees	82,941,241	0	82,941,241
Ordinance Violations	2,429,000	0	2,429,000
Other	129,580,114	(3,400,000)	126,180,114
<b>Total</b>	<b>1,199,060,568</b>	<b>(5,800,000)</b>	<b>1,193,260,568</b>
<b>Uses</b>			
<i>City of Indianapolis and Marion County</i>			
Public Safety & Criminal Justice	579,513,237	0	579,513,237
Child Services	103,736,950	0	103,736,950
Public Works	163,709,161	0	163,709,161
Metropolitan Development	43,217,264	0	43,217,264
Parks and Recreation	33,667,838	0	33,667,838
Community Affairs	3,505,103	0	3,505,103
Debt Service	191,070,244	3,408,602	194,478,846
Executive, Legislative & Admin	76,759,857	2,500,000	79,259,857
<b>Total</b>	<b>1,195,179,654</b>	<b>5,908,602</b>	<b>1,201,088,256</b>
<b>Annual Surplus / (Deficit)</b>	<b>3,880,914</b>	<b>(11,708,602)</b>	<b>(7,827,688)</b>
Dedicated Revenues - Change in Fund Balance	12,992,944		12,992,944
Sanitation Service District	5,329,131		5,329,131
Storm Water Management			
<b>Adjusted Annual Surplus / (Deficit)</b>	<b>(14,441,161)</b>	<b>(11,708,602)</b>	<b>(26,149,763)</b>

# Fund Balances Supporting the Deficit

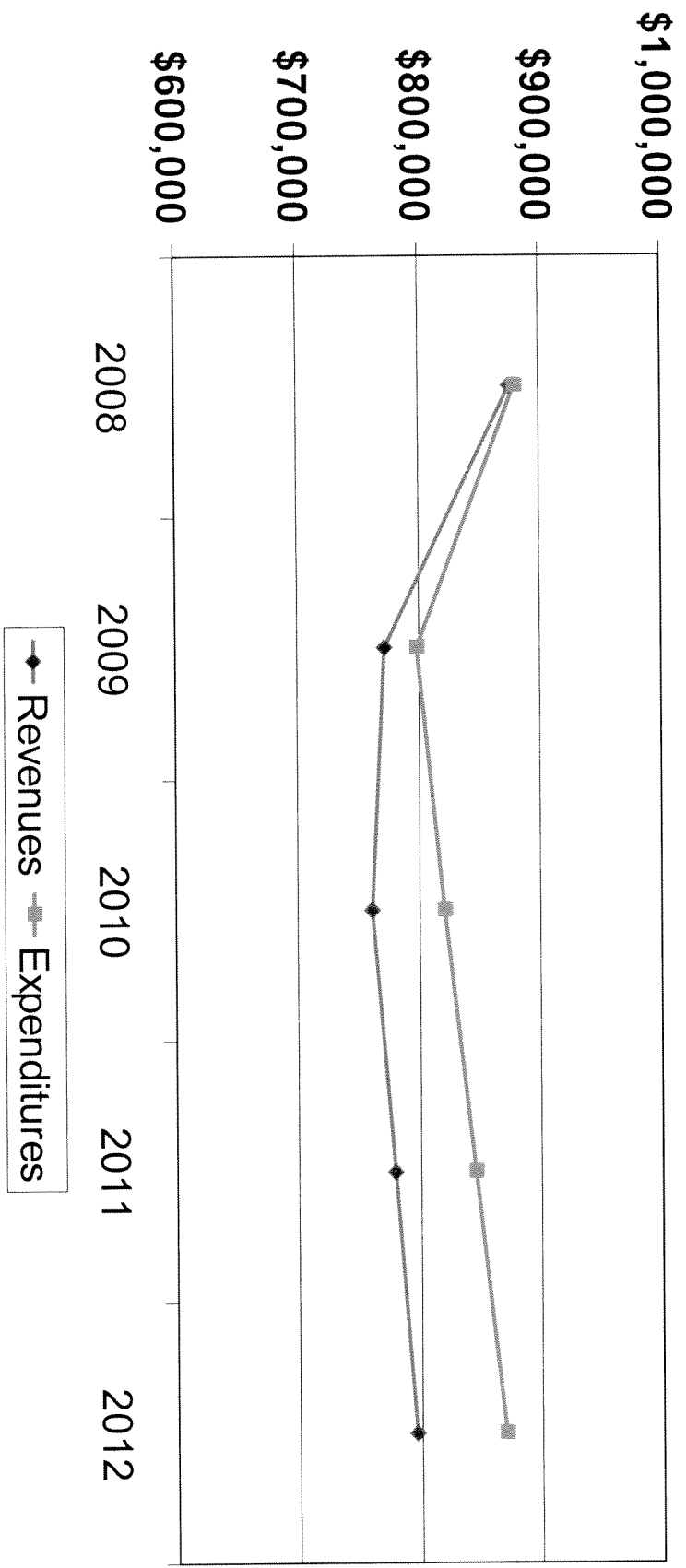
- Fire Pension \$8.0mm
- City Debt Service \$5.4mm
- Transportation General \$3.7mm
- County General \$3.5mm

# 2009 Budget Development

- Three Year Outlook 2009 - 2011
- Begin with 2008 Spending Plan (95%)
- Include Grant Appropriations
- Unknown Assessed Values
- Circuit Breaker Impacts

# City of Indianapolis and Marion County

Property Tax Supported Funds Only  
(\$ in thousands)



# City of Indianapolis and Marion County

Property Tax Supported Funds Only  
(\$ in thousands)

